RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Aug. 26, 1998 **LETTER 1259**

THE PICTURE: When did the primary bear market start? According to classic Dow Theory, a bear market starts at the point where the two Averages, Industrials and Transports, registered their **last joint highs**. That point was April 16, 1998. On that day the Dow closed at 9076.57 and the Transports closed at a record high of 3686.02. At no time since have the two Averages recorded higher joint closes. True, the Industrials continued north, hitting a record high of 9337.97 on July 17. But the new Dow high was **not confirmed** by the Transports.

The two Averages then turned down. On July 29 the Transports broke below their June low. On August 4 the Industrials confirmed by violating their own June low. The joint penetrations of the June lows signaled that a primary bear market is in progress.

As for the broad market, as measured by the advance-decline ratio, the ratio topped out on April 3 (see page 2 chart). Following April 3, the A-D ratio headed down, and by early August the breadth could only be described as "crashing." In fact, by early August the A-D ratio was approaching a severely oversold state. Between July 9 and August 11 the A-D ratio was down on 19 of the 24 trading sessions or 79% of the time. This is about as **extreme as breadth ever gets on the downside.**

The acute oversold situation set off a sharp rally, a rally which undoubtedly re-ignited hopes that the decline from the July highs was a mistake, an aberration brought on by the Clinton scandals and the near-collapse of Russia.

The Rally Described: From "The Stock Market Barometer," written in 1922 by William Hamilton, the famous Dow Theorist: *"In a primary bear market the rallies are apt to be violent and erratic, and always occupy less time than the decline which they partially recover. Often the primary movement of a few weeks is retracted in a few days."*

The outstanding characteristic of this bear market, so far, has been the **chronic weakness of breadth,** meaning continuing severe weakness in the **majority** of the stocks on the NYSE. In previous Letters, I likened the current market to a bathtub filled with water -- with the stopper having been pulled out. The toys and floating soap may bob up and down on the surface, but the fundamental situation is that the **water is running out**. And that's the way I view the breadth situation -- it's as if the water is slowly running out of the bathtub.

Three items are of particular interest in gauging the strength or weakness of the current market. **(1)** Last week's rally produced very little on the upside for my **Primary Trend Index (PTI).** By August 19 the PTI was at the low again, and on August 21 the PTI sank to a new low, its lowest level since early-March. The 89-day moving average of the PTI is now trending down, something it hasn't done in years. There's nothing more bearish for the market than a decisive downtrend in the PTI.

(2) Breadth, as measured by the **advance-decline ratio**, has been abysmal. Note on the page 2 chart that as of Friday (Aug. 21), despite last week's rally, the A-D ratio has gone nowhere, showing us that the majority of stocks still fail to follow a limited number of big-cap stocks.

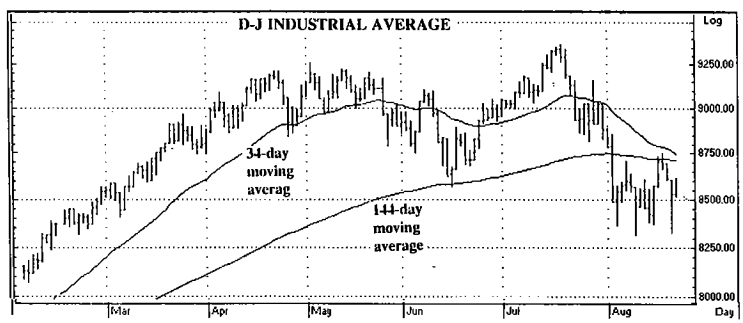
Aug. 14 DJIA 8425.00; PTI 5303; A-D Ratio +6.59
Aug. 21 DJIA 8533.65; PTI 5293; A-D Ratio +6.13
Dow Yield: 1.44%; Dow Price/Earnings: 21.5
Dow 144-day MA: 8716; Dow 34-day MA: 7863
Dow Times Book Value: 5.35; PTI 89-day MA: 5320
Percentage of Undervalued Blue-chips: 4%
Gold 34-day MA: 292.6

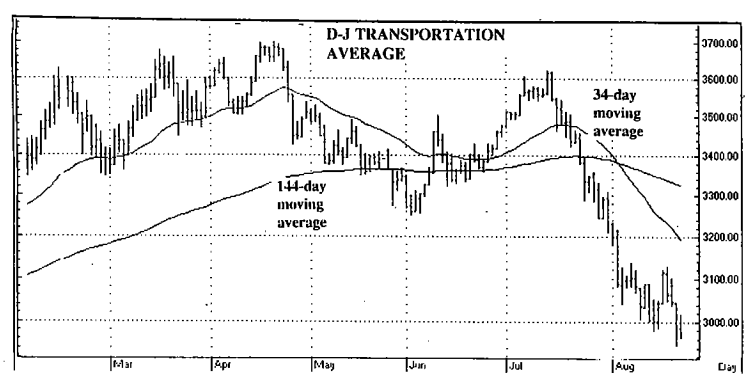
(3) Investor's Business Daily's **Mutual Fund Index** is an average of 23 leading equity-growth funds. The chart on page 2 shows how these funds have been doing so far in the bear market. Note that last week's rally did little or nothing for the funds, which are now holding below both their 50-day and 200-day moving averages.

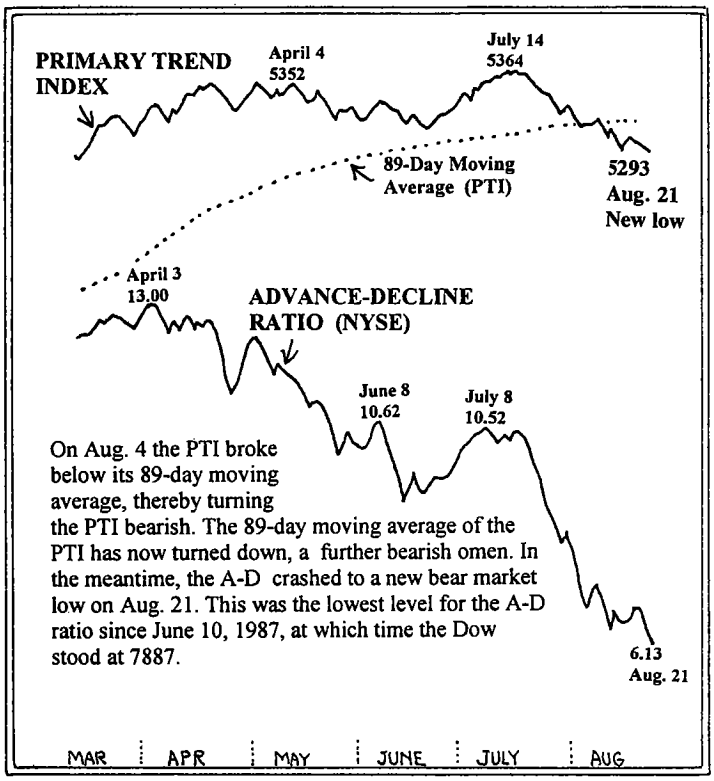
Saved by the Big-Money Breadth Index (BBI) -- But for How Long? The BBI continues to be the strength of this market (page 2 chart). Unlike the PTI and the A-D ratio, the BBI never really fell apart. I said in the last Letter that until the BBI breaks down in earnest, I expect the bear market to remain in its "polite" phase. Which is what has happened. What the BBI is telling us is that whatever power is left in this bear market is concentrated in perhaps 50 high-cap or high-tech corporations. But strength in these 50 stocks has continued to act as a cover-up for weakness in the great majority of stocks. My guess, however, is that by October or November the big 50 stocks will have joined the breadth-parade on the downside.

Bear Market: To me, one of the most interesting phenomena of the current market situation is the **absence** of any talk of the Dow Theory bear market signal. The question is why?

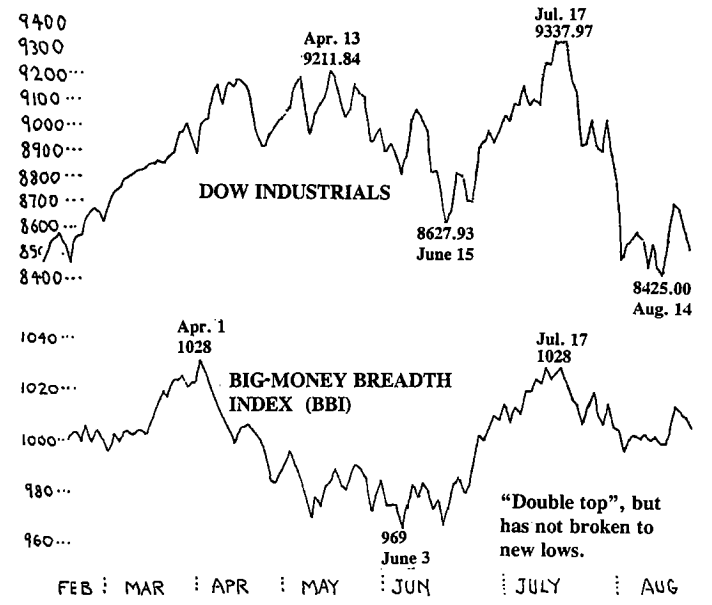
My answer is that professionals, analysts (particularly analysts who work for brokerage houses), and the so-called market

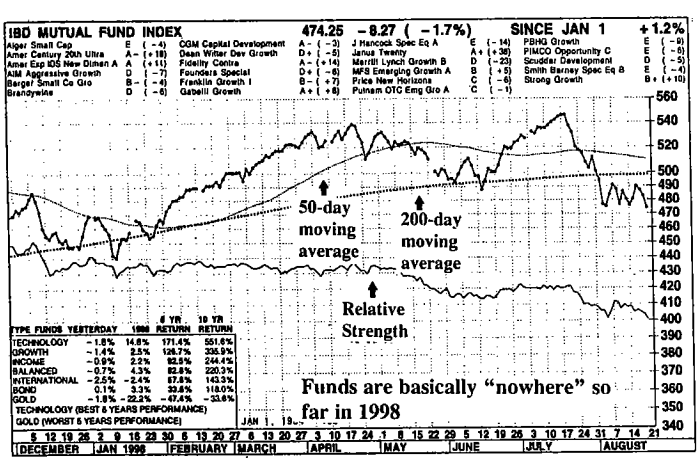






On Aug. 4 the PTI broke below its 89-day moving average, thereby turning the PTI bearish. The 89-day moving average of the PTI has now turned down, a further bearish omen. In the meantime, the A-D crashed to a new bear market low on Aug. 21. This was the lowest level for the A-D ratio since June 10, 1987, at which time the Dow stood at 7887.





"experts" hate the very concept of a Dow Theory primary bear signal -- assuming that they even understand what it means. They hate it and fear it because that signal implies **something inevitable,** something that **cannot be manipulated.**

The idea that there is a greater force than the government's agencies, than the government's manipulators, than the Fed itself, is anathema to the "experts," and it frightens them. "Hey, haven't we had good, even great, markets (with the exception of a few poor years like 1980 and 1987) since the 1974 bottom? Hasn't the Fed learned how to control the markets? Look how beautifully the market has acted under Bill Clinton, Clinton who (despite the character issue) has done everything right."

So the concept of the primary trend, a force greater than the Fed, than the government, than any group of governments, is simply ignored by the "talking heads" of CNBC, the *Wall Street Journal* and *Business Week*. "There's nothing that happens in the market or the economy that can't be fixed," is what they'd like to believe. But believers in the primary trend (of which Richard Russell is one) maintain that once the primary trend turns up in a bull market, or down in a bear market, that trend is **fated to run to conclusion.** Not all your protestations, all the government manipulations, all the arguments of Wall Street's analysts, can change that irrevocable verdict of the market. The primary trend will run to conclusion no matter what -- it's simply a matter of how it does it and how long it takes to do it.

One danger here is expressed in this headline from the August 11 *WSJ*. It runs like this -- if you're wrong, if you get caught in a costly market sell-off, why just sit tight. The long-term history of the stock market is that stocks always end higher, so all you have to do is sit tight, avoid panic, close your eyes, shut out the news -- and be patient. In time the great built-in, upward trend of American stocks will bail you out, and you'll end up with profits. The second clip from the August 17 *WSJ* tells us that "top economists" are not worried. Actually, they're just shrugging off the "stock slide" as some sort of short-term mistake.

GETTING GOING / By Jonathan Clements

Has the Tumbling Market Got You Down? Odds Still Favor Longer-Term Investors

If the recently turbulent stock market has you worried that the good times are finally over, maybe it's time to consider | True, the lower returns aren't exactly enticing. But they

Of course, these attitudes fit right in with one of my primary rules, the rule that states that "the bear wants to take stocks down while at the same time keeping as many investors in the market as possible." And how is that accomplished? First, you have the "experts" advise you to "sit tight -- in the long run stocks will be higher." Meanwhile, other experts are stating that the market decline is "no big thing," and that "what's happened on Wall Street won't affect the economy."

Investors Bullish Despite Market Slump

By Leo Fasclocco
Investor's Business Daily

You'd think the stock market's slump would rattle investors. But hardly any of those who attended one of the year's

The top 50 firms in the S&P 500 have a price-earnings ratio about three times their earnings growth rate, says Seneca, whose San Francisco firm manages $7 billion. That's overvaluation. But many of the other 450 stocks have P-E ratios

30 jumped to 90 cents a share from 7 cents a year ago.

"Arterial is the kind of stock,I feel comfortable holding two or three years, no matter what the market does," Kum

Top Economists Shrug Off Stock Slide

Warily Hopeful, Experts Term Impact Limited Unless Drop Turns Steep

Top Economists Untroubled by Stock Plunge

The forecasts below, for growth in inflation-adjusted gross domestic product, are from The Wall Street Journal's semi-annual survey taken in June. Last week, the 10 top economists from the previous survey were asked whether they would change their forecasts, based on the stock market's downturn.

4% Rank: 1 | 4% Rank: 6

Question: Russell, do you see any theme behind this bear market? I mean, what's the market "thinking about," in your opinion? Why are the majority of stocks acting so poorly?

Answer: I've said repeatedly that the real reasons for a bear market are seldom known at the time. I know that Asia and Clinton and more recently Russia have received most of the blame for the decline. But I believe the **big picture** may have much more to do with a **world over-supply of goods plus deflation. Too many goods are being produced cheaply and competitively, too many goods with not enough markets to absorb those goods. That plus broadly declining prices and a worldwide collapse of pricing power.**

A year or so ago I warned that all the talk about the marvelous opportunities from Asian markets, and particularly the Chinese market, could be dead wrong. Instead of being a vast source of demand for US goods, Asia could represent a **vast source of supply**. And that seems to be the way things are going.

Remember, we're not dealing with a 1930s-style Japan or China or a South Korea. No, we're dealing with Asian nations that are now highly competitive, nations with high-tech know-how. These are nations that literally must export to survive. And with Japan now struggling with recession or worse, there's only one big market for these Asian exports. That big target market is the US.

Listen to this from the August 12, *Liscio Report* [(212)685-7231]: *"Anywhere you look these days prices are going down. Everything from denim to tallow, from crude oil to the sticker price of the 1999 line of Fords, is going down. The deflator for the gross domestic purchases fell 0.2% in the first quarter and rose just 0.4% in the second quarter, the most constricted two quarter performance in modern memory. US GDP has averaged 3.5% for the past nine quarters, while every measure of inflation, excluding wages, is lower now than it was at the beginning of 1996."*

Oil is in the basement, as OPEC producers, frantic for income, refuse to cut back on supply. Almost every commodity from oats to cattle to corn is in a state of decline or even collapse. Even lumber, in the face of the recent housing boom, has gone nowhere. Gold, normally highly sensitive to currency disruptions and devaluations, can't get out of its own way. The problem -- the forces of deflation are stronger than the forces of monetary disruptions.

So the US is faced with a virtual flood of goods from overseas, and prices everywhere are down or buckling. And this is not a one day or a one month phenomenon. As I see it, it is the trend of the present and probably the wave of the future. So two words, **over-supply and deflation**, provide the background for this bear market.

Question: If the market continues to decline, what are the next resistance levels?

Answer: One of the characteristics of a bear market is that it will cut through resistance levels as if they weren't there. To me, the only levels in a bear market that are interesting are the 500 and 1000 levels (such as Dow 7500, Dow 8000). And these levels are only significant in that they are psychological. Investors tend to worry as the big 500 and 1000 levels are violated. For instance, the next psychological level on the downside is Dow 8000.

Question: Russell, what about the billions of dollars that continue to pour into the mutual funds? Won't they move the market higher?

Answer: Over the short term, anything can happen in the market. But consider this -- billions of dollars have been coming into mutual funds all along, but since early April the market has absorbed all those billions of dollars, money which represents demand for stocks. But **supply has overpowered demand** and as a result prices have declined.

What we're seeing now is a **gigantic battle** between the forces of supply and the forces of demand. Supply has been winning since April 3, but periodically demand surges, giving us the rallies. As the bear market moves on, the forces of supply will strengthen and the forces of demand will weaken. The reason -- values diminish through time in a bear market (just as they increase during a bull market).

The chart at the bottom of page 1 shows the Dow and its two moving averages (MAs). Note that both MAs are now declining, and the way things are going it will only be a week or so before the short-term or 34-day MA will sink below the longer-term or 144-day MA. When such crossing takes place, it tends to put a roof over the price. If you remember, the classic bear mode is the 34-day MA below the 144-day MA and the Dow below both.

I also show a chart of the **D-J Transportation Average** and its two moving averages (bottom of page 1). The Transports are now dead-bearish. They didn't confirm the Dow on the upside, and they're **leading** the market on the downside. The Transports have already lost 18% of their peak value.

INVESTMENT POSITION: The bear is in the box. How long he'll remain in the box and how much damage he'll do is anyone's guess. Guessing at the ultimate extent of a bear market is an ego trip and a sucker's game. Nobody knows how far a bear market will run or how or when it will end.

What do we do in a bear market? I turn to a simple answer -- we follow **correct procedure.** Correct procedure in a bull market entails buying stocks early and staying with those stocks. Correct procedure in a bear market entails being OUT of stocks and in Treasury paper -- bills, notes, bonds. Sure there are other alternatives, but why mess around, why play the genius? If you're in T-notes, for instance, and simply watching the bear do his work, why that's good enough. And in so doing, you can avoid the claws of the bear. But to do this it entails one little item -- **you've got to act.**

Bear Market Trading: I'd say that the majority, maybe the great majority, of analysts and advisors don't really believe we're in a bear market. In fact, I don't think they even understand what a bear market is or how a bear market works. Therefore, most advisors are preoccupied with buying, selecting "the right" stocks, catching the periodic rallies, bottom fishing, and beating the bear.

In-and-out trading is a difficult procedure in a bear market. It's tantamount to shorting in a bull market, but probably even more difficult, since bear markets tend to move faster than bull markets and if anything, bear markets are more deceptive. Therefore, my own advice to subscribers is simply to stay in harmony with the great primary trend of the market. That means retiring to a position of safety, which in turn means moving into Government paper, and I don't care whether you buy bills, notes or bonds or a high-quality bond fund.

Conclusion: Follow correct procedure. It may be boring, but who needs the excitement of losing money?

NOTES & QUOTES: Newer subscribers may think that I get some kind of pleasure in calling a bear market and watching and waiting while billions of dollars in values go down the drain. I don't. What I do get pleasure out of is helping my subscribers either make money or avoid losses.

The change from bull market to bear market is, for most people, very difficult to believe in or to act on. By the same token, the change from a bear market to a bull market finds most people resisting and disbelieving. The fact is that despite what you hear,

probably 90% of people act on their emotions. Emotions are a lot more powerful than rationality.

My job is to present the facts as I see them, and then try to get people to overcome their emotions and deal with those facts. If I make a statement such as, "We are now in a bear market," I know that the majority of my subscribers are curious, interested, but in the main, doubtful. "How can a bear market arrive in the midst of such good times?" So I tell my readers that that's exactly when bear markets do arrive. Bear markets arrive when they are least believed and when investors are least prepared to deal with them.

Next, the market gradually begins to act like a bear market. Stocks go down, subscribers who are still holding stocks get hurt. But at the same time they begin to see what I'm talking about. Slowly and reluctantly, they move to the sidelines. Of course, my veterans, my old-timers, they've been through this before. They went through the '60s with me, the '70s with me, the '80s with me. On a bear signal, these people are out, on the sidelines, watching the show.

In all, the whole process gives me a great sense of satisfaction. I know the good feeling of being out of the market when it begins to collapse. I know that happy feeling of being loaded with stocks at the beginning of a bull market as a broad sweep of breadth takes everything north.

The fascination of this business is that you're dealing with the major trends of the world. And you're dealing with one of mankind's most treasured possessions, his money. The frustration of this business is that it's so darn difficult. Nobody has a perfect record in the business of investing. You try to correct the small mistakes, yet you must be on the right side of the big moves. This bear market, the one we're in -- to me looks like it could be a big one. If it is, subscribers who listen to me will be out of harm's way. And for me that will be a big source of satisfaction.

But suppose it's just a small bear market, what then? If that's the case I will still have operated correctly. You pay the price of insurance, and if the house doesn't burn down, you don't curse the insurance company. And you don't cancel your insurance policy. As they said back in the '60s, you just keep on truckin'.

* *

Shades of the '30s. Texas and Oklahoma are confronting the worst drought since the dust bowl. Oklahoma received only two-thirds of its normal rainfall from June 1 to August 1. Texas did no better. Texas officials state that the drought will cost its farmers $1.8 billion; Oklahoma predicted a statewide cost of $2 billion.

* *

The Speech. I thought it was mealy-mouthed and shameful. This editorial from the August 18 *USA Today* pretty much expresses my feelings.

> President Clinton's five-minute televised address to the nation last night might have been a compelling rebuke to a nation obsessed with his private life, if he'd delivered it in January.
>
> Instead, it bordered on insulting. After what everyone should now realize were seven months of stonewalling, lies and coverup, the address came across as little more than an attempt by Clinton to save his flailed skin.
>
> The president tersely admitted that he'd looked the public in the eye and lied about having sex with a 21-year-old White House intern. He confessed that he'd been less than forthcoming in a legal deposition. He said he'd suffered a "lapse in judgment and a personal failure for which I am solely and completely responsible." Then he went on to devote fully half his speech to attacking the accusers who had just been proved right.
>
> The core of the president's argument is the tired White House refrain that independent counsel Ken Starr's investigation has "gone on too long, cost too much and hurt too many innocent people." Yet if anything was obvious Monday night, it was that Clinton could have brought it all to a quick close in January simply by telling the truth then rather than having it dragged out of him now.
>
> Instead, he hid behind a stone wall while the White House went out of its way to attack innocent people who sought to expose the truth.

* *

This from *Washington Post* columnist John F. Harris: "The White House is so fixated on short-term survival that its loyalists seem unable to perceive the irony of Clinton's second term. Here is a politician who has dreamt of the presidency since he was a boy; who pores over biographies of his predecessors looking for guideposts to greatness; who 18 months ago pledged to lead America to a moral renewal. Yet the president who nurtured such high ambitions is now reduced to taking comfort in polls that show he is liked but mistrusted . . . The polls testify to the genius of Clinton and his advisors in the tactics of political survival. But the 'numbers' obscure the true state of his presidency. The collapse is not imminent. It happened months ago, if you judge by the standards Clinton laid down for himself after his 1996 reelection."

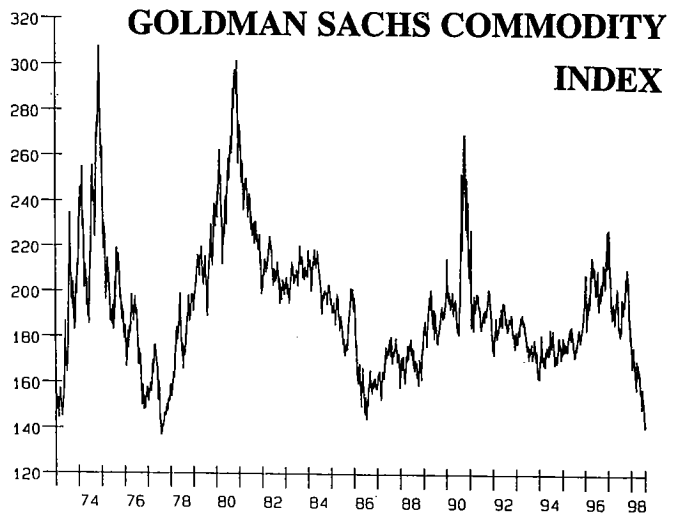
What I can't understand is the statement from many women that Hillary is so courageous because she will "stand by her man." If my daughter's husband was a serial adulterer and a chronic liar, I'd tell her to "drop your man like a bad habit." Why Hillary is willing to stand by her adulterous, lying, cheating husband is beyond me. I don't see Hillary's stand as courageous, I see it as demeaning. Furthermore, what kind of message is Hillary sending to America's young ladies (I have a daughter who will be 18 in December, and I know that Hillary will most definitely not be her role-model).

* *

Two "weasely" words that I cannot stand -- "inappropriate" and "unacceptable." They should banish these two words from the English language.

* *

This chart (courtesy of *ISI Group*) shows the Goldman Sachs Commodity Index going back to the early '70s. The Index is now flirting with the 135 level, and I'm wondering whether it's going to break to a new low for the whole period going back 25 years. Any way you look at it, this is deflation.



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Now For Some Really Hot News: I'm revising my rather lukewarm review of Gillette's new Mach3 razor. Mach3 is good, very good. Whether Mach3 was worth over $750 million to develop I don't know, but I like it -- a lot. Problem -- the refills for Mach3 run as much as $1.50 a blade . . . I was a big fan of the Seinfeld series on TV but Jerry's one-hour stand-up comedy on HBO was bad, I turned it off after a boring half hour. Jerry, you're a multi-millionaire, forget stand-up, take a rest . . . Wife Faye traded our Mercedes E320 in for a Mercedes E430. The 430 has a V-8 engine and has much more power and much better brakes than the E320. I thought the E320 was a fine car, but I think the E430 is the best all-around car I have ever owned. Fast, big pick-up, smooth-riding, great stopping power, honest, I can't find anything to complain about . . . Just saw "Saving Private Ryan" for the second time (can't remember that I ever saw any other movie twice). I was never a big Spielberg fan, the only other of his pics I really liked was "Jaws." But "Saving Private Ryan," clear and simple, is a masterpiece . . . I have always thought that San Francisco restaurants were very over-hyped; the only meals that I liked there were in Chinatown. But two weeks ago I ate at Chez Panisse in Berkeley. I ate in the upstairs restaurant, not the main one. I thought the food was tops, the price was right, and can you believe it, our waitress was a graduate of Sarah Lawrence College -- how can you top all that? . . . My traveling wife, Faye, back from a vacation in Martha's Vineyard (I take my vacations here in La Jolla) immediately trotted down to the beach for a swim. "That's it," she said, "I swam in the Atlantic this morning and in the Pacific this afternoon." How 'bout that?

* *

Microsoft is setting up a new "campus" in Silicon Valley at Mountain View, California. The five-building campus, said Steven Ballmer, MSFT's new president, "underscores Microsoft's ongoing commitment to its employees, partners and customers in the valley." Translation: Microsoft is really in the wrong place and should have been in the valley all along. The valley is where the action is, the valley is where the personnel are. Said Paul Saffo, a director of the Institute for the Future, "Microsoft is late to everything, even moving to the valley."

* *

Speaking of Microsoft, I write this Letter on Windows 95, but I don't really like Microsoft Word on Windows 95. The program is fast, but I have a lot of trouble losing paragraphs or corrections. Frankly, I often think wistfully of my old Macs (I started with Macs, and I think that basically, the Mac is a better machine than the PC). Somebody must agree with me, because the new iMacs are selling like crazy, and Apple states that the way orders are coming in they might sell a million iMacs before the end of the year. Apple's dealers are now complaining that they may not have enough of the new computers to satisfy demand. **Russell Comment:** Go Apple!

* *

People are asking why Prudential's Ralph Acampora, who was famous for predicting "Dow 10000," suddenly did an about-face and talked about maybe a 15% to 20% decline. The answer (and I know Ralph from way, way back) is that Ralph recognized the Dow Theory bear signal and Ralph knows that the Dow Theory is a better predictor than he is. To his credit, Ralph did a quick reversal, but since he works for a brokerage firm he softened the blow by saying that the Dow could fall maybe 15% to 20%. Actually, Ralph knows very well that in a bear market the Dow could fall as far as it wants to fall -- 15%, 50% or 80%.

* *

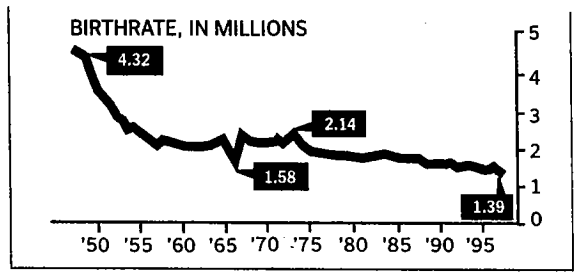
The guys at Goldman Sachs on August 10 voted overwhelmingly to take the company public. The bear market has started so Goldman may be (ahem) rather late. Treasury Secretary Rubin, former CEO of Goldman, now has no connection with his former company. Before Rubin left, he owned 5% of Goldman. The disconnection could cost Rubin as much as $1 to $1.5 billion in lost profits. Of course, Rubin is a millionaire already, but hey, he could have been a billionaire -- and that's enough to aggravate any real competitive money-man.

* *

The US is now the dumping ground for all the world's (read Asia's) goods. According to the *WSJ* (Aug. 11), "So much cargo is arriving from Asia that Long Beach, Calif., the nation's largest port, has set up special storage areas to handle the overflow. In tonnage, the arrivals there from S. Korea are up 35% from last year; from Hong Kong up 29%, and from China up 21%. And more ships than ever before are sailing back to Asia empty." **Russell Comment:** The US negative trade balance is stated to have surged to $250 to $300 billion. Ordinarily, this would sink the dollar, but because Russia, Japan and most of Asia are collapsing, and because they are shipping their money here, the dollar is holding well. Two weeks ago Vietnam devalued by 10% and Japan's yen is still scraping the bottom.

* *

As if Japan didn't have enough troubles, it now faces what might be called "the dearth of birth." This chart shows the collapsing birth rate in Japan. At 1.39 the birthrate is below the replacement rate of 2.0. This is going to result in a marked drop-off in Japan's population as the country moves into the 21st century. What's happening? Young Japanese women are delaying marriage and having fewer and fewer children when they do marry -- or many choose not to marry at all. The reason for the "childless society," states the Ministry of Health and Welfare, is Japan's male-dominated corporate culture. The real reason Japanese women don't want to marry or have babies is that "the Japanese corporate climate requires husbands to put work before family." By the way, Japan is not the only nation with a birth problem. The fertility rate for Britain is 1.75, France 1.2, Germany 1.30 and Sweden 1.53.



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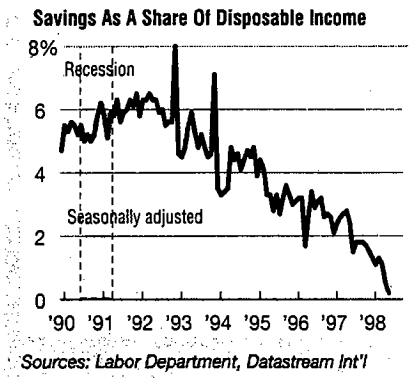

Sources: Labor Department, Datastream Int'l

Americans are the world's biggest spenders and the world's worst savers. With years of a bull market behind them, many Americans have felt that their stock profits plus housing appreciations are juicy enough that they don't need to save. Beside, there are so many things Americans feel they must have, such as TVs, computers, washing machines, two cars, homes of their own, etc. This chart tells the story. The latest figures show that Americans now save literally zero.

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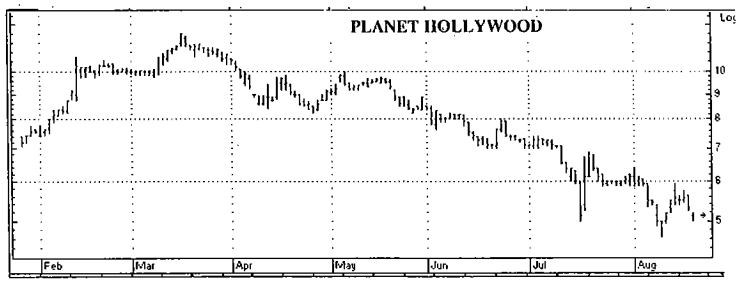
We could be watching the end of one of the dumbest trends of recent years, the "concept restaurant." It started with the Hard Rock Cafe and imitators rushed in with Planet Hollywood, Rainforest, Harley Davidson Cafe, on and on ad nauseum.



Japan's new Prime Minister, Keizo Obuchi, is facing blistering criticism from opposition politicians, who claim that Obuchi and his cohorts lack the expertise and experience needed to rescue Japan's sinking economy. Said Kansei Nakiano, a member of Japan's largest opposition party, the Democratic Party, "What qualifications and ability does the new Cabinet have? Without new policies, there will be no reforms. We must dissolve the Parliament." In opinion polls, Obuchi's cabinet received less than 30% support. The Japanese media has painted the new Obuchi as colorless and unimaginative.

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A subscriber just sent me a copy of the Toronto Star. A feature article starts, "Chelation therapy is a procedure that could land any Ontario doctor in big trouble. A doctor caught treating vascular disease with chelation risks prosecution by provincial medical regulators and the loss of his or her license to practice medicine. Yet the controversial treatment is tolerated, if not endorsed in Alberta, British Columbia, and Saskatchewan and widely practiced throughout the US and elsewhere in the world." **Russell Comment:** The arrogance and dishonesty of many medical groups is beyond belief. Because chelation treatment for vascular clogging is a menace to every hospital and to every cardiac surgeon, medical boards have moved in certain areas to ban the treatment. In my experience and in talking to dozens and dozens of people, chelation does work. I know that ultimately the truth about almost everything will out (even Clinton discovered that). I predict that the truth about chelation will someday emerge and when it does it will prove to be one of the biggest medical scandals of the century. For info on chelation, punch it out on the Internet. The whole story is there.

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Very few government agencies pay their way, and most are bloated beyond recognition. But one agency that makes money is the Securities and Exchange Commission. It is a "cash cow." Fees collected by the SEC are mostly for company registrations and for stock transfers. This year the SEC will take in an estimated $1.2 billion while spending $315 million to do it. That's a profit margin of 75%, not bad for a government agency.

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Quote from Michael Metz of Oppenheimer: "If oil prices stay at $12 a barrel for the next six or nine months, you can say good-bye to the house of Saudi, to Yeltsin, to Mexico, to Venezuela and to Indonesia. If you think oil prices are going to stay here for the next six to nine months, my advice is to sell everything. Because you're probably in a period of unspeakable political instability around the world."

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Speaking of currencies, here's what's been happening, courtesy of the *LA Times*. It's called *competitive devaluations*. All this is leaving the dollar as the world's most wanted and also most expensive major currency. This strength of the dollar could exert pressure on the Fed to lower rates, thus making the dollar less attractive for the rest of the world to own.

Country/currency	Currency per dollar: July 1, 1997	Mon.	Purchasing power loss
Poland/zloty	3.29	3.50	-6%
Canada/dollar	1.38	1.53	-10
Mexico/peso	7.92	9.26	-14
Singapore/dollar	1.43	1.76	-19
Japan/yen	114.88	145.96	-21
Australia/dollar	1.33	1.70	-22
S. Africa/rand	4.53	6.27	-28
S. Korea/won	887.80	1,333.00	-33
Russia/ruble	5.78	9.50*	-39
Malaysia/ringgit	2.52	4.23	-40
Thailand/baht	24.70	41.80	-41
Indonesia/rupiah	2,432.00	12,900.00	-81

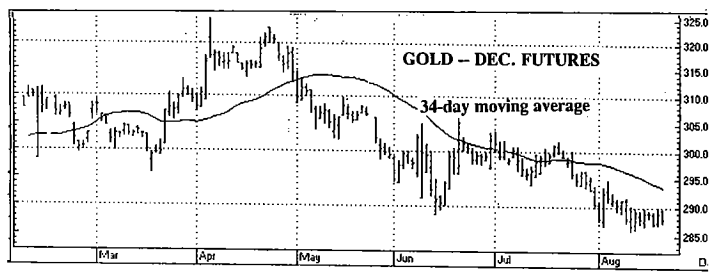
* New limit set by government; ruble traded in a wide range on Monday.
Source: Bloomberg News

The latest devaluation came out of Russia where the ruble was allowed to drop from 6.3 to the dollar to 9.5 for the dollar, a potential drop of 34%. The price for dollars on the streets of Moscow immediately jumped to as high as 9.5 rubles. The collapse of the ruble means that Russia will pay less to those unfortunates (including many German banks) who own ruble-denominated loans.

Without a gold anchor, the world is living in a sea of floating paper, with nothing behind any currency except confidence or the lack thereof. A few years ago when Russia created its new ruble, I said at the time that since Russia is a big producer of gold it should immediately back the ruble with gold, thus making it a solid currency. Of course, that never happened. Over the years, the ruble headed lower. On August 17, 1998, after many denials, Russia devalued what was left of the ruble.

GOLD: What can I say, it's just not gold's time yet. With currencies around the world collapsing, this should be the ideal climate for gold. Yet -- nothing's happening. Why? What we're seeing is what I call the "dollar-ization" of the world economy. Faith in the power of the dollar is extraordinary: everybody wants to be in dollars -- everybody. So why be in gold when dollars remain the undisputed "power-currency"?

The daily chart of gold says it all. The 34-day moving average for December gold (futures) stands at 292.8. December gold, as I write this, is at 287.9, five points below its MA. If gold is going to look like anything it will first have to climb above 287.9. Unless or until it does that, all else is just idle hopes, chatter, theories. That's it on gold for now.



LATE NOTES: I'm not going to say much about our missile attacks on terrorist camps. I gather the CIA has known about the terrorists for many months. Yeah, I know, the timing of the missile attack is suspect, but then as far as I'm concerned everything this Administration does is suspect. Unfortunately for this nation, the rest of the world now sees Clinton as weak and discredited, a President whose popularity is sinking, and, if I'm correct, fated to sink a lot lower. Question: Where did all the worry about Saddam go? He seems now to have a free hand.

The market is currently oversold by all "normal" standards -- and bottom-fishers continue to rush in daily as they attempt to scoop up the "bargains." On Friday, August 21, the Dow smashed over 280 points in the morning -- then rallied to close the session "down only 77 points." TV commentators pounced on this as bullish action and emphasized "the great intra-day recovery." **Dow Theory is interested in only closing prices**, and I therefore urge subscribers to draw conclusion based only on the market's closing figures. For instance, on August 21 **on a closing basis** the Dow was simply down 77 points on 720 million shares and poor breadth, hardly a bullish session. Had the intra-day rally of August 21 resulted in the Dow closing up for the day, that would have been a different story. But the market closed down on huge volume.

The week closed (Aug. 21) with new bear market lows in the Dow, the Transports, the NYSE Composite, the A-D ratio and my Primary Trend Index. Treasury bonds, which I have been recommending for many months, closed at historic highs.

NEXT MAILING: Sept. 9, 1998